CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

How the Budget may affect families

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The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

- The Medicare levy will increase by 0.5% to 2.5% from 1 July 2019
- The Government will spend $37.3 billion on child care over four years
- Additional education funding has been set at $18.6 billion over 10 years
- University student fees will increase by 7.5% by 2021
- University graduates will start repaying their loans when they reach an income level of $42,000 a year, down from approximately $55,000
- Family Tax Benefit Part A payments will not be indexed for two years
- Doctors will be encouraged to prescribe generic drugs to save the Pharmaceutical Benefits Scheme $1.8 billion over five years
- No changes to negative gearing or capital gains tax
- Over 65s will be able to make a non-concessional contribution of up to $300,000 each into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.
- Pensioners will receive a one-off energy bill payment of $75 for singles and $125 for couples
- The pensioner concession card will be restored to those affected by the pension assets test change 1 January 2017
- No material changes to Aged Care
- Growing consensus that the global economic outlook is improving
- Improving the targeting of tax concessions by disallowing accommodation and travel deductions for residential rental property
- Limiting depreciation deductions for plant and equipment on residential investment properties
- Major banks with liabilities greater than $100 billion will pay a Levy, raising $6.2 billion over four years. The Levy will be used to support Budget repair
- Ordinary bank deposits and other deposits protected by the Financial Claims Scheme will be excluded from the Levy base. It will not be levied on mortgages
- $75 billion in infrastructure funding and financing over the next 10 years
- A $472 million Regional Growth Fund will be established
- Reforming foreign investment rules to discourage investors from leaving their properties vacant
- An annual foreign worker Levy of $1,200 or $1,800 will apply per worker per year on temporary work visas and a $3,000 or $5,000 one-off Levy for those on a permanent skilled visa.

Medicare levy
In health care, the Medicare levy will increase on 1 July 2019 by 0.5% to 2.5% of taxable income to help fund the $22 billion National Disability Insurance Scheme. Treasurer Scott Morrison says all Australians need to support the disability scheme, even if they aren't directly affected.

Child care
The Government will invest $37.3 billion in child care over four years to help about 1 million families, including those that need before and after school care for their children. A single, simplified, means-tested child care subsidy will provide more support for the families who need it the most from 2 July 2018.

The subsidy will introduce hourly rate caps and remove unnecessary regulation to allow providers to offer more flexible hours of care. The child care subsidy will be payable only to families with incomes below $350,000 per annum (in 2017-18 terms) from 2 July 2018. The upper income threshold of $350,000 per annum will be indexed annually by CPI from 1 July 2018.

A further $428 million will be provided to extend the National Partnership Agreement on Universal Access to early childhood education for the 2018 school year to allow access to a quality preschool education.

Schools funding
This Budget will invest $18.6 billion in extra schools funding over the next 10 years, in accordance with the Gonski needs-based standard. Funding for each student across all sectors will grow at an average of 4.1 per cent a year.

However, university fees will rise by $2,000 to $3,600 for a four-year course and students will have to start paying back their debt when they earn more than $42,000 from July next year, down from the current level of approximately $55,000. A 2.5 per cent efficiency dividend will be applied to universities for the next two years.

First-home buyers
First-home buyers will be able to use voluntary contributions to their existing superannuation funds to save for a house deposit. Contributions and earnings will be taxed at 15%, rather than marginal rates, and withdrawals will be taxed at their marginal rate, less 30% tax offset. Contributions will be limited to $30,000 per person in total and $15,000 per year. Both members of a couple can take advantage of the scheme. Non-concessional contributions can also be made but will not benefit from the tax concessions apart from earnings being taxed at 15%.

The States will be required to deliver on housing supply targets and reform their planning systems and a $1 billion National Housing Infrastructure Facility will aim to remove infrastructure impediments to developing new homes.

In Melbourne, Defence Department land at Maribyrnong will be released for a new suburb that could cater for 6,000 new homes. A new National Housing Finance and Investment Corporation will be established by July 1, 2018, to provide long-term, low-cost finance for more affordable rental housing.

Housing supply targets
States and Territories will be encouraged to transfer stock to the community housing sector and managed Investment trusts will be allowed to develop and own affordable housing. The incentive for investors will include a capital gains tax discount of 60%, and direct deduction of rent from welfare payments from tenants.

Contribution of home sale proceeds into super
Australians over the age of 65 will be able to make a non-concessional contribution of up to $300,000 into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.

Family Tax Benefits
The current Family Tax Benefit Part A payments will not be indexed for two years from 1 July 2017. Indexation will resume on 1 July 2019. A 30¢ in the dollar income test taper will apply under Method 1 for Family Tax Benefit Part A families with household incomes above the Higher Income Free Area (currently $94,316) from 1 July 2018. Entitlements under Family Tax Benefit Part A may be worked out using two income tests, with the one giving the highest rate applying. Method 1 sometimes produces a higher result for larger families.

Pensioner Concession Card
The Pensioner Concession Card will be reinstated for those pensioners who were no longer entitled to the pension following the changes to the pension assets test from 1 January 2017. Stricter residency rules will be put in place for access to The Age Pension and Disability Support Pension.

The Liquid Asset Waiting Period will increase to 26 weeks from 13 weeks from 20 September 2018 for certain payments. However, age pensions, disability support pensions and carer payments will not be affected by the increase as they are not subject to a Liquid Assets Waiting Period.

Seven working-age payments and allowances will be consolidated into one payment called a JobSeeker payment. The intent is to achieve a more equitable and consistent participation requirement for the affected payments. Pensioner Concession Card and Health Care Card eligibility will not be affected by the changes.

The Pensioner Education Supplement and Education Entry Payment will be aligned with the study loads undertaken effective from 1 January 2018. In addition, the Pensioner Education Supplement is not payable during semester breaks and end of year holidays.

People over the age of 60 and under the Age Pension age will have a lower activity test requirement for the Newstart Allowance.

Former Farm Household Allowance recipients who do not receive any other Commonwealth income support will be eligible for loans of up to 50% to refinance their debt to a maximum of $1 million.

Major bank Levy
A major new Levy on the five biggest banks with liabilities above $100 billion will raise $6.2 billion over the Budget forward estimates. It will not apply to additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. The Australian Competition and Consumer Commission will undertake a residential mortgage pricing inquiry until 30 June 2018 in conjunction with the Levy.

The Budget papers say there are clear and growing signs that global economic conditions are improving. Chinese GDP growth has ticked up in early 2017 and the United States economy is performing well.

The outlook for business investment and industrial production in several major economies is picking up. Business and market sentiment have strengthened as confidence in global prospects has improved. The underlying cash balance is expected to improve from a forecast deficit of $29.4 billion in 2017–18 to a projected surplus of $7.4 billion in 2020–21.

There were no changes to negative gearing but from 1 July 2017, accommodation and travel deductions for residential rental property will be disallowed and plant and equipment depreciation deductions for residential investment properties will be restricted to only those expenses directly incurred by investors.

What's next?

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice.